The COVID-19 crisis will stimulate the need as well as the demand for impact investing

BY JOLANDA DE GROOT

Amidst many global initiatives to bring impact investing to the attention of institutional investors, the Global Impact Investing Network (GIIN) has been an important voice for more than ten years, working to change the way the world thinks about the power of investment capital as a way to create positive social and environmental impact. Financial Investigator asked Wouter Koelewijn, European Liaison for the GIIN, some questions regarding the challenges and the effect of the coronavirus crisis on impact investing.

How do you define impact investing?

'Impact investments are investments made into companies, organizations and funds with the intention of generating positive, measurable social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, across asset classes, and target a range of returns from below-market to market-rate, depending on investors' objectives. Impact investing is not just about avoiding harm or mitigating risk, but in fact is essentially about intentionally using investment capital to positively contribute to social and environmental impacts.

For those already investing with ESG considerations, impact investing is often a complementary and attractive next step. The GIIN's Core Characteristics of Impact Investing establishes the minimum expectations for impact investing, distinguishing impact investing from other complementary approaches.'

Has impact investing matured over the last couple of years? And if so, how?

'Many mainstream entrants, including institutional investors, endowments, pension funds, family offices and insurance companies, are now seeing a real opportunity to invest in sustainable solutions to social and environmental challenges.

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Research shows that impact investors that target market-rate returns can achieve them. In our 2019 Annual Impact Investor Survey, over 90% of respondents reported performance in line with or exceeding both their impact and their financial expectations. Other areas of great progress have been in impact measurement and management practices, and in the availability of impact investing funds at scale for institutional investors, compared to ten years ago when the GIIN was founded.'

How serious are institutional investors about impact investing?

'Institutional investors are responding to the rapidly growing demand from their clients and beneficiaries. There is a lot of interest concerning the SDGs. Asset owners are formulating allocation goals related to the SDGs and other impact themes and are looking at where opportunities for positive impact can be integrated into different parts of one's portfolio.

While the depth varies, many investors are thinking about their societal responsibility and are going beyond more limited risk management strategies. The next step for these investors is to set impact goals and to measure and manage against those goals, which is where impact investing will have a lot to offer – providing the tools and processes for investors to focus on their impact goals and to translate their impact intentions into real results.'

What are the biggest challenges regarding impact measurement and impact reporting?

'As institutional investors invest in a wide variety of asset classes and underlying assets, one of the challenges to measuring impact is that 'impact' is not easily captured by just a number. Impact is contextual and multi-dimensional.

Data-standardization and credible, comparable impact data are needed to inform impact investment decisions and to drive greater impact results.

This means that impact looks very different from one sector to another, depending on what one is investing in. For example, impact in inclusive finance will look quite different from impact in sustainable food and agriculture, or renewable energy.

In order to take the guesswork out of what and how to measure, we have developed the free online resource IRIS+, based on a decade of leadership in impact measurement and management and with contributions of over 1,000 stakeholders around the world. Today, IRIS+ is recognized as the most comprehensive system for impact measurement and management, making it easy for investors to translate their impact intentions into real results.

Another commonly cited challenge, as noted in the GIIN's State of Impact Measurement and Management Practice survey, is a lack of transparency on impact performance. While impact investors can track the performance of their own portfolios, it is still challenging to place their performance into context and to assess their performance relative to that of their peers. Data standardization and credible, comparable impact data are needed to inform impact investment decisions and to drive greater impact results. We are now developing an entire ecosystem that is setting the stage for benchmarking of impact performance.'

What are the biggest obstacles for investors to start implementing impact investing and how can investors overcome them?

'Perhaps one of the biggest misperceptions about impact investing is that it requires investors to completely change their approach towards investing. In fact, impact investing is simply investing with an extra lens. To get started, it is important for investors to discuss with their clients or beneficiaries the environmental and social goals they would like to contribute to. Which themes and sectors are important to a client and to the sector this client is working in?

Investors do not have to radically change their choice of asset classes or their investment processes. Rather, given the asset classes investors are currently investing in, they can explore investment opportunities that intentionally target impact themes within those asset classes. By doing so, impact investing has also provided investors with funds and projects that they might have otherwise overlooked. Investing in companies and projects that have a positive, real world impact can contribute to long-term portfolio

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resilience and diversification. Moreover, investing with an impact lens is not just financially important, it also positively contributes to our society and environment.'

What effect will the COVID-19 crisis have on impact investing?

'There will be a great need as well as a great demand for impact investing as a result of this crisis. Investors seeking to create a positive societal impact will have the opportunity to put their capital to work and to take on a leadership role in what could be a foundational moment for a reshaped global economy. Efforts to rebuild businesses, restore quality jobs and increase access to basic services such as health, housing, and education are among the many opportunities where impact investors can put their money to work, in both the immediate response and longer-term recovery.

We recently launched the 'Response, Recovery, and Resilience Investment Coalition' (R3 Coalition), a market-wide, global coalition, which aims to streamline impact investing efforts that will address the large-scale social and economic consequences of COVID-19. As part of this, investors need to put impact investing front and center when thinking about the future they invest in, and I expect more investors will look towards impact investing as they allocate capital coming out of this crisis.' «

More information

All resources mentioned in this interview are available for free at www.thegiin.org